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RUEHFK/AMCONSUL FUKUOKA IMMEDIATE 5784
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RHEFDIA/DIA WASHINGTON DC IMMEDIATE
RUCPDO/DEPT OF COMMERCE WASHINGTON DC IMMEDIATE
RUEAIIA/CIA WASHDC IMMEDIATE
RHHMUNA/HQ USPACOM HONOLULU HI IMMEDIATE
RHEHAAA/NSC WASHDC IMMEDIATE
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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 000235

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TAGS: [PGOV](#) [EFIN](#) [JA](#)

SUBJECT: RULING COALITION FLOATS TEMPORARY GAS TAX EXTENSION

REF: TOKYO 0142

Classified By: Ambassador J. Thomas Schieffer, reasons 1.4(b),(d).

¶1. (C) Summary: The ruling coalition has decided to submit a bill to extend temporarily the controversial provisional gasoline tax for two months, over the strong objections of the opposition. At this point, the opposition DPJ appears ready to hold budget-related legislation, including the gasoline tax bill, for the constitutionally allowable maximum of 60 days in the Upper House, after which the ruling coalition must resort once again to a two-thirds override vote in the Lower House. The current legislation is scheduled to sunset on March 31, the end of the fiscal year. Any bill that is intended for passage by March 31 thus needs to be approved in the Lower House by the end of January. While the potential financial ramifications of a failure to extend the legislation before the new fiscal year are limited, and should have no real impact on passage of the budget itself, decision over Diet tactics could create additional political vulnerabilities for the Fukuda administration. End summary.

¶2. (C) Action in the first week of the new Diet session has been focused almost exclusively on the gasoline tax, as expected. In the latest twist, lawmakers from the ruling Liberal Democratic (LDP) and Komeito parties have decided to submit to the Lower House a bill to extend by two months the provisional tax on gasoline, most of which is used to fund road-related construction projects. The two-month extension is a stop-gap measure intended to maintain the provisional tax after the underlying enabling legislation expires on March 31 (the end of the Japanese fiscal year). The Special Measures Tax Law, which authorizes collection of an additional 25 yen per liter on gasoline, among other provisions, is one of 43 revenue-related special measures that are slated to expire at the end of the fiscal year and must be dealt with in coming weeks in order to implement the budget. The opposition is vowing publicly to oppose the temporary extension, and possibly even boycott deliberations on the budget altogether.

¶3. (C) Prime Minister Yasuo Fukuda has stated publicly his commitment to passing revised legislation to extend the revenue-related bills for the longer term, but faces serious

public relations and procedural hurdles. The opposition Democratic Party of Japan (DPJ) has seized on the gasoline tax as a central issue in its ongoing battle to push Fukuda to dissolve the Diet and call a snap Lower House election. When mounting appeals for public support, DPJ promises of lower prices at the pump have an obvious advantage over government warnings of wider economic consequences, despite the hit that local communities will eventually face if this particular revenue stream is allowed to dry up. Part of the government's reason for submitting the temporary extension measure now may be to avoid a situation where the surcharge on gasoline is allowed to lapse and must then be re-imposed, Embassy contacts say. The ruling coalition is pointing to the potential environmental benefits of more expensive gasoline, namely lower emissions, to sell its plan. The government has stoked local opposition to ending the tax by circulating a "hit list" of projects that will be canceled if the tax is allowed to lapse. Prime Minister Fukuda has also started pointing out that the price of Japanese gasoline is cheap in comparison to Europe.

14. (C) Procedurally, with the DPJ likely to claim the moral high ground and criticize the ruling parties for deviating from past practice by submitting budget-related bills before the budget has been discussed, the government may be hoping that early submission of a temporary extension measure will be more palatable to the public than a fight over a longer term extension at this time. Senior DPJ lawmakers, including Diet Affairs Chair Yamaoka and Policy Affairs Chief Koshiishi, challenged that notion, stating publicly that submission of even a temporary extension before budget deliberations begin is tantamount to taking a vote on the

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gasoline tax without a debate.

15. (C) According to the Japanese Constitution (Articles 59 and 60), the budget itself, unlike other legislation, passes 30 days after its approval by the Lower House, regardless of what the Upper House does or does not do. Passage of taxation measures, on the other hand, requires approval of both Houses of the Diet, and allows the Upper House to hold bills for up to 60 days before the legislation can be passed into law by a two-thirds re-vote of the Lower House.

16. (C) While budget-related revenue measures are necessary to fund the budget, failure to gain passage before the new fiscal year opens on April 1 should not have an immediate impact on the government's ability to fund operations in the short term, Embassy sources note. Passage of the budget gives the Ministry of Finance full authority to run government programs and operations, subject to adequate funds. Even if the budget fails to pass, MOF can introduce an emergency budget bill to fund essential operations on a temporary basis. Such a bill would require approval by both Houses, but neither party is likely to want to take the blame for actually shutting down the government. The MOF can also issue 90-day bonds on its own authority, in the event of a serious but temporary shortfall. A little further down the line, however, failure to gain passage of the budget-related bills will force the government to search for other ways to generate other funding.

SCHIEFFER